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DIRECTORS

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COUNSEL

E. A. DARR
MGR. SALES DEPT.

T. W. BLACKWELL
LEAF SUPERVISOR

R. J. Reynolds Tobacco Company

WINSTON-SALEM, N. C. January 15, 1941.

To the Stockholders of
R. J. REYNOLDS TOBACCO COMPANY:

There is enclosed herewith Financial Statement of your Company as at December 31, 1940.

Net earnings for the year 1940 amounted to $25,548,424.39, or $2.55 per share, compared with $25,645,455.09, or $2.56 per share for 1939, after increases in Federal Income and Excess Profits Taxes imposed during the year in connection with the Defense Program. Federal taxes on income were $3,153,231.93 more than for the year before, of which increase $3,046,975.83 represents increased Income Tax and $106,256.10 represents Excess Profits Tax, the total of these taxes being 54.36% greater than for 1939. Dividends amounting to $2.25 per share were paid in 1940. The Company's volume of sales showed a sizable increase in 1940 over the year before.

Financial condition of the Company as set forth in the accompanying statement is presented on the same conservative basis as in former reports. The Company's valuable brands, trade-marks and good will are carried, as formerly, in the Financial Statement at the nominal sum of $1.00. Net current assets at December 31, 1940, were $138,954,123.51, compared with $136,803,609.69 at the close of the year previous. Undivided Profits at December 31, 1940, were $48,281,500.25, an increase of $3,048,424.39 for the year.

Inventories are valued at cost as in former years. Leaf tobacco included in inventories held and aged for several years preparatory to manufacture into the Company's products—CAMEL Cigarettes, PRINCE ALBERT Smoking Tobacco and many other important brands—is advantageously owned in relation to quantity held, as well as by way of comparison with current market prices, and is well-balanced in the choice and more expensive grades suitable for the exacting requirements of the increasing volume of the Company's quality products.

As to Turkish tobacco, the Company's subsidiary which operates in Turkey and Greece has been successful in completing shipment of practically all of its tobaccos from storages in those countries, and the Company's Turkish tobaccos on hand in this country and in transit are ample for a number of years' usage. Likewise, with respect to cigarette paper, which in past years has been largely imported, the Company not only has on hand an inventory sufficient for a long period but, in the past year, has been getting a large part of its requirements of paper, in equally fine quality, from a source of supply developed in this country, and with an increase in that supplier's facilities now under way the Company's requirements are fully provided for without dependence on any foreign source.

During the year the Company added to its program in effect previously for the security and benefit of its employees, a plan for vacations-with-pay. This program now includes, in addition to factory medical, dental and first-aid nursing services which have been in operation for about twenty years, life, accident and health insurance, hospitalization, and monthly retirement payments to employees retired after attaining the required minimum age and years of service with the Company. The insurance and retirement plans were inaugurated a number of years before the Federal Social Security programs became law and payments to employees under the Company's plans have been continued independently of the benefits available through the Social Security Acts. Also, the Company has granted its employees entering the military or naval service of the United States leaves of absence without loss of seniority and with certain pay allowances and continuation of group life insurance protection. In this connection, it is of interest to note the length of service with the Company of its manufacturing personnel. For example, eighty-nine per cent. of these employees have been with the Company more than five years, sixty-one per cent. more than ten years, while thousands of them have been with the Company more than fifteen years, hundreds more than twenty-five years and some over fifty years.

The number of stockholders to whom this statement is being mailed is the largest in the history of the Company, the total at the end of the year being in excess of sixty-one thousand. An analysis of the stockholding group made at a recent date shows some interesting facts as to distribution of the Company's shares: Over eighty-eight per cent. of the stockholders held one hundred shares or less, and the largest single holding in the Company is only about two per cent. of its total shares. The number of women stockholders was more than fifty-one per cent. of the total. More than two thousand of the Company's employees are stockholders and hundreds of educational, charitable and religious institutions are included among the holders of stock. Residents of every one of the forty-eight states of the nation, as well as of many foreign countries, are stockholders.

Jas. A. Gray,
President.